

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 SP-02 L-03 NSC-05

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 7269

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E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: ECONOMIC FORECASTING

REF: A. OTTAWA 2891 B. STATE 180524

1. ON AUGUST 14, STATISTICS CANADA RELEASED INDEX OF INDUSTRIAL PRODUCTION FOR JUNE AND SECOND QUARTER 1975. JUNE INDEX ROSE 0.1 PERCENT (FROM 208.3 TO 208.4), AND SECOND QUARTER INDEX WAS OFF 0.8 PERCENT (FROM 210.5 TO 208.8). MOST NOTABLE CHANGES IN JUNE WERE IN INDICES FOR MINERAL FUELS (UP 9.8 PERCENT), METAL MINES (DOWN 7.6 PERCENT), NON-DURABLE MANUFACTURING (UP 0.8 PERCENT) AND DURABLE MANUFACTURING (OFF 0.5 PERCENT).

2. IN NEW ISSUE OF TORONTO DOMINION BANK'S "CANADA'S BUSINESS CLIMATE", BANK'S DEPARTMENT OF ECONOMIC RESEARCH PREDICTS 0.3 PERCENT REAL GROWTH IN GNP FOR 1975 AND 10 PERCENT RISE IN CPI FOR YEAR. BANK EXPECTS NO "TURN AROUND IN CURRENTLY-DECLINING MANUFACTURING OUTPUT" BEFORE FINAL QUARTER OF 1975 DUE TO SLOW-DOWN IN NEW ORDERS AND RISE IN MANUFACTURERS' INVENTORIES.

3. BANK ALSO PREDICTS CONTINUED HIGH UNEMPLOYMENT FOR 1975, AND "EXPECTED RECOVERY (IN ECONOMY) WILL BEGIN SLOWLY AND GATHER MOMENTUM NEXT YEAR". CONTRIBUTING
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TO ECONOMIC RECOVERY WILL BE CONSUMER SPENDING (UP

EXPECTED 13 PERCENT OVER 1974), BUSINESS INVESTMENT (RISING BY 20 PERCENT) AND FEDERAL DEFICIT SPENDING OF OVER C\$3.5 BILLION.

4. SLIGHT RISE IN JUNE INDUSTRIAL PRODUCTION INDEX COULD BE INTERPRETED AS SIGNALING END OF RECESSION AND REINFORCING VIEWS OF ECONOMIC ANALYSTS HERE WHO HAVE BEEN PREDICTING RESUMPTION OF REAL GROWTH IN LAST SIX MONTHS OF 1975. HOWEVER, SOFT SPOTS IN MANUFACTURING, METAL MINING AND FORESTRY SECTORS OF ECONOMY STILL EXIST AND WILL PROBABLY HOLD REAL GROWTH IN GNP TO BANK'S PREDICTION OF 0.3 PERCENT FOR YEAR. EMBASSY SEES NO REASON FOR CHANGING ITS ESTIMATES OF INDUSTRIAL PRODUCTION INDEX FOR REST OF 1975 AND FIRST TWO QUARTERS OF 1976 (REFTEL A) UNLESS EXOGENOUS FACTORS (E.G., U.S. DEMAND FOR CANADIAN MINERALS, FORESTRY PRODUCTS AND SOME MANUFACTURED GOODS) CHANGE DRAMATICALLY IN NEXT FEW MONTHS.
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